

PINCKNEY COMMUNITY PUBLIC LIBRARY
Livingston County, Michigan

AUDITED FINANCIAL REPORT

**For the Fiscal Year Ended
December 31, 2005**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Pinckney Community Public Library	County Livingston
Fiscal Year End 12-31-2005	Opinion Date March 2, 2006	Date Audit Report Submitted to State 6-15-2006	

We affirm that:

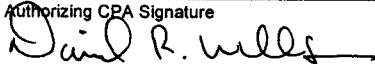
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|-------------------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Post, Smythe, Lutz, and Ziel, LLP		Telephone Number 734-453-8770	
Street Address 1034 West Ann Arbor Trail		City Plymouth	State MI
Authorizing CPA Signature 		Printed Name David R. Williamson	Zip 48170
		License Number 1101012382	

PINCKNEY COMMUNITY PUBLIC LIBRARY
For the Year Ended December 31, 2005

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Independent Auditor's Report

March 2, 2006

To the Board of Trustees
Pinckney Community Public Library
Livingston County, Michigan

We have audited the accompanying financial statements of the governmental activities, and the major fund of Pinckney Community Public Library as of and for the year ended December 31, 2005 which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pinckney Community Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Pinckney Community Public Library as of December 31, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
Pinckney Community Public Library
March 2, 2006

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pinckney Community Public Library's basic financial statements. The accompanying required supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink, appearing to read "Post, Smythe, Lutz and Ziel".

POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants

Management's Discussion and Analysis

As management of Pinckney Community Public Library, we offer readers of Pinckney Community Public Library's financial statements this narrative overview and analysis of the financial activities of Pinckney Community Public Library for the year ended December 31, 2005.

Financial Highlights

- The assets of Pinckney Community Public Library exceeded its liabilities at the close of the most recent fiscal year by \$1,067,950 (*net assets*). Of this amount, \$754,549, (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Pinckney Community Public Library's governmental fund reported ending fund balance of \$759,094, an increase of \$66,295 in comparison with the prior year. Of this total amount, \$754,549 is *available for spending* at the Library's discretion (*unreserved fund balance*).
- The Board annually designates 75% of the prior year revenues in excess of expenditures to fund future building acquisitions.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Pinckney Community Public Library's basic financial statements. Pinckney Community Public Library's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Pinckney Community Public Library's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Pinckney Community Public Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Pinckney Community Public Library is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Pinckney Community Public Library that are principally supported by taxes

and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Pinckney Community Public Library are limited to operating the Library. The Community Public Library has no business-type activities.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Pinckney Community Public Library, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Pinckney Community Public Library are categorized as governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Pinckney Community Public Library maintains only one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund.

Pinckney Community Public Library adopts an annual appropriated budget for its general fund, and a budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-20 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Pinckney Community Public Library, assets exceeded liabilities by \$1,067,950 at the close of the most recent fiscal year.

	2005	2004
Current and Other Assets	\$ 763,059	\$ 979,631
Capital Assets	308,856	310,862
Total Assets	1,071,915	1,290,493
Current liabilities	3,965	286,832
Net Assets:		
Invested in Capital Assets		
net of related debt	308,856	310,862
Restricted	4,545	-
Unrestricted	754,549	692,799
Total Net Assets	\$ 1,067,950	\$ 1,003,661

A significant portion of Pinckney Community Public Library's net assets (29 percent) reflects its investment in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. Pinckney Community Public Library used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Pinckney Community Public Library's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of Pinckney Community Public Library's net assets (0.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining, and largest portion of *unrestricted net assets* (\$754,549) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Pinckney Community Public Library is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

The government's net assets increased by \$64,289 during the current fiscal year as shown in the table below:

	2005	2004
Program Revenues:		
Charges for Services	\$ 9,797	\$ 5,412
Operating Grants & Contributions	6,253	6,044
Capital Grants & Contributions	-	-
General Revenues:		
Property Taxes	280,548	264,289
State Shared Revenues	9,173	9,189
Other	-	17,043
Penal Fines	49,261	43,988
Unrestricted Investment Earnings	21,357	13,185
Total Revenues	376,389	359,150
Program Expenses:		
Public Library	312,100	334,461
Change in Net Assets	\$ 64,289	\$ 24,689

Governmental activities. All of the Community Public Library's activities are "governmental".

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Financial Analysis of the Government's Funds

As noted earlier, Pinckney Community Public Library used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Pinckney Community Public Library's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Pinckney Community Public Library's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current fiscal year, Pinckney Community Public Library's governmental fund reported combined ending fund balances of \$759,094 an increase of \$66,295 in comparison with the prior year.

The general fund is the only operating fund of Pinckney Community Public Library. At the end of the current fiscal year, unreserved fund balance of the general fund was \$754,549.

During 2005 there were no significant capital expenditures. The fund balance of Pinckney Community Public Library's general fund increased by \$66,295 during the current fiscal year, as revenues exceeded operating expenses; the original budget contained very conservative revenue projections.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were \$30,890, and represented minor changes to the original spending plan, and additional appropriations.

Capital Asset and Debt Administration

Pinckney Community Public Library's investment in capital assets for its governmental activities as of December 31, 2005, amounts to \$308,856 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment. The investment decreased by \$2,006 (net of depreciation expense).

Details to the Library's capital assets are continued in the notes to the financial statements on page 19.

Long-term debt. Pinckney Community Public Library has no outstanding long-term debt.

Economic Factors and Next Year's Budgets and Rates

The Pinckney Community Public Library voter adopted millage rate for general operating purposes (1.000) was reduced again by the Headlee Amendment rollback to .9817. These factors were considered in preparing Pinckney Community Public Library's budget for the 2006 year.

Requests for Information

This financial report is designed to provide a general overview of Pinckney Community Public Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pinckney Community Public Library Director.

BASIC FINANCIAL STATEMENTS

PINCKNEY COMMUNITY PUBLIC LIBRARY

Statement of Net Assets

December 31, 2005

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 752,390
Receivables-Taxes	10,669
Capital Assets (Net of Accumulated Depreciation)	308,856
Total Assets	<u>1,071,915</u>
<u>LIABILITIES</u>	
Accounts Payable	3,343
Accrued Liabilities	622
Total Liabilities	<u>3,965</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, net of related debt	308,856
Restricted for Other	4,545
Unrestricted	754,549
Total Net Assets	\$ <u><u>1,067,950</u></u>

PINCKNEY COMMUNITY PUBLIC LIBRARY
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Primary Government:					
Governmental Activities:					
Public Library	\$ <u>312,100</u>	\$ <u>9,797</u>	\$ <u>6,253</u>	\$ <u>-</u>	\$ (296,050)
General Revenues:					
Property Taxes					280,548
Penal fines					49,261
State Shared Revenue					9,173
Unrestricted Investment Earnings					<u>21,357</u>
Total General Revenues and Transfers					<u>360,339</u>
Change in Net Assets					64,289
Net Assets - Beginning					<u>1,003,661</u>
Net Assets - Ending					\$ <u>1,067,950</u>

PINCKNEY COMMUNITY PUBLIC LIBRARY

Balance Sheet

Governmental Funds

December 31, 2005

	<u>General Fund</u>	
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 752,390	
Property Taxes Receivable	<u>10,669</u>	
Total Assets		\$ <u><u>763,059</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts Payable	\$ 3,343	
Accrued and Other Liabilities	<u>622</u>	
Total Liabilities		\$ 3,965
Fund Balance:		
Reserved for Restricted Gifts	4,545	
Unreserved	<u>754,549</u>	
Total Fund Balance		<u>759,094</u>
Total Liabilities and Fund Balance		\$ <u><u>763,059</u></u>
 Fund Balance Modified Accrual		\$ 759,094
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		<u>308,856</u>
Net Assets of Governmental Activities		\$ <u><u>1,067,950</u></u>

PINCKNEY COMMUNITY PUBLIC LIBRARY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	<u>General Fund</u>	
<u>Revenues</u>		
Revenues:		
Property Taxes	\$ 280,548	
State Shared Revenues	9,173	
Penal Fines	49,261	
Book Fines and Rentals	6,190	
Interest	21,357	
Other	9,860	
Total Revenues	<u>\$ 376,389</u>	
<u>Expenditures</u>		
Accounting/Auditing	8,100	
Automation-Operating Expense	11,258	
Automation-Capital Outlay	13,837	
Bank Fees	87	
Board Expenses	465	
Books and Materials	20,714	
Audio Books	2,340	
Insurance	11,856	
Interactive Books	453	
Inter Library Loan	11	
Janitorial	4,242	
Legal	647	
Library Supplies	2,978	
Marketing and Promotion	4,137	
Membership and Dues	802	
Music CD	692	
Office Expense	8,048	
Periodicals and Newsletters	2,202	
Program Fund and Development	3,970	
Repairs and Maintenance	8,610	
Subcontractors	861	
Telephone and Communications	2,356	
Training and Conferences	3,124	
Utilities	6,555	
Video Expense	6,502	
Travel and Meetings	2,105	
Payroll Expenses	177,077	
Miscellaneous	2,500	
Capital Outlay	2,965	
Other-DDA	600	
Total Expenditures	<u>310,094</u>	
Excess of Revenues Over Expenditures		66,295
Fund Balance, January 1		<u>692,799</u>
Fund Balance, December 31		<u><u>\$ 759,094</u></u>

PINCKNEY COMMUNITY PUBLIC LIBRARY
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005

Amounts reported for governmental activities in the statement of activities (page 9) are different because:

Net change in fund balances - total governmental funds (page 11)	\$ 66,295
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	<u>(2,006)</u>
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Change in net assets in governmental activities (page 9)	\$ <u><u>64,289</u></u>
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PINCKNEY COMMUNITY PUBLIC LIBRARY
Notes to Financial Statements
December 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Pinckney Community Public Library was formed in 1977 by adoption of resolutions of the Putnam Township Board and the Pinckney Village Board of Trustees. The Library was accepted as a District Library, by the State of Michigan in 1989, after the voters of the district approved an operating tax levy.

The Library serves the residents of the Village of Pinckney and Putnam Township in their entirety.

In accordance with the provisions of the Governmental Accounting Standards Board's pronouncements the financial statements of the Pinckney Community Public Library contain all the Library's activities for which the Library is financially accountable and the nature and significance of their relationship with the District Library are such that exclusion would cause the Library's financial statements to be misleading or incomplete.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

PINCKNEY COMMUNITY PUBLIC LIBRARY
Notes to Financial Statements
December 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental Funds

The Library reports only a single major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as needed.

PINCKNEY COMMUNITY PUBLIC LIBRARY
Notes to Financial Statements
December 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the Library to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks.

2. Receivables and Payables

The Library had taxes receivables as of December 31, 2005 which represents unpaid personal property tax collections. No allowance for doubtful accounts has been established as the Library expects to fully collect these amounts.

3. Capital Assets

Capital assets, which include property, plant, equipment, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, equipment and furniture of the Library are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	5-50
Equipment and Furniture	2-40

PINCKNEY COMMUNITY PUBLIC LIBRARY
Notes to Financial Statements
December 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued

4. Compensated Absences

Under current policy, employees are not permitted to accumulate unpaid "paid time off".

5. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this \$2,006 difference is as follows:

Capital Outlay	\$ 16,802
Depreciation Expense	<u>(18,808)</u>
	<u>\$ (2,006)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

1. Budgets must be adopted for the General Fund.
2. Budgets must be balanced.
3. Budgets must be amended as necessary.

PINCKNEY COMMUNITY PUBLIC LIBRARY
Notes to Financial Statements
December 31, 2005

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

A. Budgetary Information - Continued

4. Public hearings must be held prior to adoption.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget appropriation prior to being incurred.

The Library follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to December 1, the Library Director submits a proposed operating budget for the ensuing fiscal year commencing January 1. The Board adopts the budget at the total fund level.
2. Public hearings are conducted at the Library to obtain taxpayer comments.
3. Prior to December 31, the budgets are legally enacted at the total fund level for the General Fund.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
5. Budget appropriations lapse at year end.
6. The Library does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.
7. Budgeted amounts are reported as originally adopted, or as amended by the Library Board.
8. In 2005, budget amendments were made and are reflected in the financial statements.

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The Library has no funds with accumulated fund balance deficits.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

During the year ended December 31, 2005, the Library did not incur expenditures in excess of the amounts appropriated.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law the Library is permitted to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in

PINCKNEY COMMUNITY PUBLIC LIBRARY
Notes to Financial Statements
December 31, 2005

IV. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments - Continued

bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library's cash and investments are subject to several types of risk, which are detailed below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be recovered. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2005, the Library's book balance of its deposits was \$752,238; the total book balance was \$752,390, due to \$152 in cash on hand. The bank balance was \$754,726 which was exposed to custodial credit risk, as follows:

	<u>Bank</u> <u>Balance</u>
Insured by F.D.I.C.	\$ 497,045
Uninsured and Uncollateralized	<u>257,681</u>
Total	<u>\$ 754,726</u>

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of cash are as follows:

<u>Deposits</u>	<u>Fair Value</u>	<u>Weighted Average</u> <u>Maturity</u>
Savings and Checking Accounts	\$ 389,382	Demand
Certificates of Deposit	365,344	112 days

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices. As of year end, all deposits consisted of checking, savings and certificates of deposit which are not rated.

PINCKNEY COMMUNITY PUBLIC LIBRARY
Notes to Financial Statements
December 31, 2005

IV. DETAILED NOTES ON ALL FUNDS - Continued

B. Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 10,001	\$ -	\$ -	\$ 10,001
	<u>10,001</u>	<u>-</u>	<u>-</u>	<u>10,001</u>
Capital Assets, being depreciated:				
Building and Improvements	287,400	1,370	-	288,770
Equipment and Furniture	106,727	15,432	-	122,159
	<u>394,127</u>	<u>16,802</u>	<u>-</u>	<u>410,929</u>
Less: Accumulated Depreciation:				
Building and Improvements	(61,748)	(5,919)	-	(67,667)
Equipment and Furniture	(31,518)	(12,889)	-	(44,407)
	<u>(93,266)</u>	<u>(18,808)</u>	<u>-</u>	<u>(112,074)</u>
Governmental Activities Capital Assets, net	\$ <u>310,862</u>	\$ <u>(2,006)</u>	\$ <u>-</u>	\$ <u>308,856</u>

Depreciated expense was charged to functions of the Library
as follows:

Public Library	\$ <u>18,808</u>
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C. Property Taxes

As of December 31, 2005 the Library was permitted to levy the following taxes:

<u>Source</u>	<u>Purpose</u>	<u>Date of Authorization</u>	<u>Maximum Authorized</u>	<u>Less: Required Reductions (State Law)</u>	<u>Maximum Allowable Millage</u>	<u>2004 Tax Levy</u>
Voted	Operating	08/2002	1.0000 mills	(.0183)	.9819	.9819

PINCKNEY COMMUNITY PUBLIC LIBRARY
Notes to Financial Statements
December 31, 2005

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Fund Balance

A detailed description of fund balance reservations and designations for the operating fund as of December 31, 2005 is provided below:

Reserved for Restricted Gifts	\$ 4,545
Designated for Building Acquisition	413,000
Designated for Other Capital Projects	46,435
Undesignated	<u>295,114</u>
	<u>\$ 759,094</u>

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

The Library does not maintain a retirement plan for its employees.

B. Risk Management

The Pinckney Community Public Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library maintains commercial insurance coverage covering each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage for the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

PINCKNEY COMMUNITY PUBLIC LIBRARY
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
Revenues:				
Property Taxes	\$ 250,000	\$ 265,000	\$ 280,548	\$ 15,548
State Shared Revenues	9,000	9,000	9,173	173
Penal Fines	50,000	49,261	49,261	-
Book Fines and Rentals	5,000	5,500	6,190	690
Interest	2,500	15,126	21,357	6,231
Other	5,600	7,964	9,860	1,896
Total Revenues	<u>322,100</u>	<u>351,851</u>	<u>376,389</u>	<u>24,538</u>
Expenditures:				
Accounting/Auditing	7,800	8,250	8,100	150
Automation-Operating Expense	12,000	12,000	11,258	742
Automation-Capital Outlay	20,000	20,000	13,837	6,163
Bank Fees	100	100	87	13
Board Expenses	500	500	465	35
Books and Materials	23,000	28,000	20,714	7,286
Audio Books	3,500	4,500	2,340	2,160
Equipment Rent	400	400	-	400
Insurance	15,028	15,028	11,856	3,172
Interactive Books	500	600	453	147
Inter Library Loan	1,000	1,000	11	989
Janitorial	4,160	5,000	4,242	758
Legal	2,500	2,000	647	1,353
Library Supplies	4,000	4,000	2,978	1,022
Marketing and Promotion	6,000	6,000	4,137	1,863
Membership and Dues	900	900	802	98
Music CD	500	800	692	108
Office Expense	6,500	8,000	8,048	(48)
Outside Services	100	100	-	100
Periodicals and Newsletters	1,500	2,000	2,202	(202)
Program Fund and Development	4,500	5,000	3,970	1,030
Repairs and Maintenance	8,200	8,500	8,610	(110)
Subcontractors	500	1,000	861	139
Telephone and Communications	2,000	2,000	2,356	(356)
Training and Conferences	2,000	4,000	3,124	876
Utilities	5,500	6,500	6,555	(55)
Video Expense	7,000	8,000	6,502	1,498
Travel and Meetings	3,000	3,000	2,105	895
Payroll Expenses	174,000	179,000	177,077	1,923
Miscellaneous	5,000	13,000	2,500	10,500
Capital Outlay	-	2,800	2,965	(165)
Other-DDA	-	600	600	-
Total Expenditures	<u>321,688</u>	<u>352,578</u>	<u>310,094</u>	<u>42,484</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ <u>412</u>	\$ <u>(727)</u>	66,295	\$ <u>67,022</u>
Fund Balance, January 1			<u>692,799</u>	
Fund Balance, December 31			\$ <u>759,094</u>	

POST, SMYTHE, LUTZ AND ZIEL LLP

Certified Public Accountants

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Wendy Leung Lee, C.P.A., C.V.A.
Therese Mulholland, C.P.A.

March 2, 2006

RECEIVED
DEPT. OF TREASURY

Board of Trustees
Pinckney Community Pubic Library
Pinckney, Michigan

JUN 14 2006

LOCAL AUDIT & FINANCE DIV.

Our audit of the financial statements of Pinckney Community Public Library for the year ended December 31, 2005 has been completed and was conducted in accordance with generally accepted auditing standards which require that we determine that existing internal controls, accounting procedures and accounting records are adequate to allow us to express an opinion on the financial statements of the Library. The scope of our audit is not intended to be a detailed review of all systems and procedures; therefore, this report should not be considered all inclusive.

Internal Controls

To improve internal accounting controls we recommend:

- EFTPS payments (payment of federal taxes to the U.S. Treasury for payroll related amounts) are currently accomplished by the Library's bookkeeper, who also prepares the payroll, prepares payroll tax returns, reconciles bank accounts, and posts the general ledger. We suggest that these functions be accomplished by the Treasurer, or in the absence the Director.

The Library should consider the use of third party payroll processing services for payroll and tax filing. Properly implemented, this could result in better segregation of duties in the payroll area. We further suggest that payroll be accomplished using a separate imprest bank account.

- Cash Disbursements – Currently require a single signature – the Treasurer or the Director – we suggest that the Library consider dual signatures for all disbursements. Further, we suggest that a single accounts payable account be utilized to disburse funds (currently the Library has two) and finally the Library should consider the use of "positive pay" which is a service offered by your bank which records pertinent information about each check such as the amount, the check number, bank information and date, and then transmits it to the bank to be verified, before the check can be paid. This will help insure that only authorized payments are paid by the bank.

Accounting Software

The Library uses a low cost "off the shelf" accounting program to accomplish payroll, and general ledger activities. The version of the program used by the Library allows users to "turn off" the audit trail feature, and change transactions. During the audit, several transactions entered and reconciled by the bookkeeper were changed by an employee in an attempt to "cut off" expenditures for year end.

We suggest that the Library purchase the most current version of the software, which does not allow the control features to be "turned off", and that an employee not involved in the accounting or treasury functions be the "administrator". The Library should look to replace the program with software designed for local government.

Budget Procedures

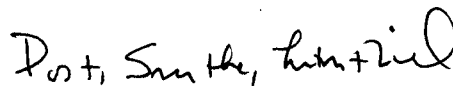
The Library does not appear to comply with the Uniform Budgeting Act in its processes to adopt the annual budget. We couldn't locate evidence that:

- Notice of Public Hearing was published in newspaper of local circulation at least 6 days prior to the hearing (MCL 141.412).
- Library held a public hearing, prior to adopting the budget (MCL 141.434).

In addition, it does appear that the Library published notice of and held a "Truth in Taxation" public hearing, in spite of the fact that they levied less than one mill. Michigan law doesn't appear to require "Truth in Taxation" public hearings and related notices, if a local unit levies less than one mill. And finally, the Library does not use the State's Uniform Chart of Accounts as required by MCL 141.421. We recommend that the Library implement the required chart of account numbers as soon as possible.

We appreciate the courtesy extended to us by you during the course of our examination. We would be pleased to provide additional assistance if you desire.

Sincerely,



POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants